

PRESS RELEASE

I.T GLOBAL PRIVATE LIMITED

January 2024

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	877.59	IRN BB-	Assigned
Short Term Bank Facilities	1,010.00	IRN A4	Assigned
Total	1,887.59		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB- (Double B Minus) to the long term bank facilities of NPR 877.59 Mn and IRN A4 (A Four) to the short term bank facilities of NPR 1,010.00 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of I.T Global Private Limited (ITGPL) derive strength from experienced promoter supported by proficient and qualified management team leading to a better understanding of the market dynamics. The rating also factors in the moderate track record of operation with improvement in scale and margins, association with established brands, and market presence across major cities via its sister concern. These rating strengths however, are partially offset by working capital intensive nature of operations with high reliance on external financing. The rating also notes ITGPL's exposure to supplier concentration risks, non-exclusive agreements with suppliers, presence in competitive industry with technological linkages, exposure to regulations and foreign exchange risks. Going forward, the ability of the company to improve scale of operation while maintaining the profitability margins along with the coverage & capitalization indicators will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Moderate track record of operations with experienced promoters and management team

ITGPL is promoted by Mr. Akbar Hussain, chairman, who has been leading the firm since its inception in 2008. Mr. Hussain has over twenty-five years' experience in the ICT (Information Communication Technology) sector, which bodes well for the overall business prospects of the firm in an increasingly competitive industry. He has a degree in B-tech and also is the CEO of one of its group companies "Max International", which is in the similar ICT business since 2006. Furthermore, the company is supported by an experienced team across various functions.

Improvement in sales and margins

The company reported healthy revenue growth of above ~215% in FY22, primarily attributed to securing the authorized distributorship of Dell products with Dell Global B.V, Singapore in FY21/22. However, there was a decline of ~36% in revenue in FY23, attributed to sluggish economy that impacted the entire industry. Despite this decrease in sales volume, the EBITDA margin saw a significant increase to ~14.40% in FY23 from ~2.75% in FY22. This substantial margin improvement was a result of a surge in the realization price of limited stock (laptops), leading to better realization and higher margins. Going forward, ITGPL's ability to enhance the scale of operations while maintaining profitability margins, coverage & capitalization indicators remain a key monitorable.

Established distribution, brand and market presence across major cities

ITGPL is one of the three authorized distributors of Dell products in Nepal. ITGPL primarily deals with Dell products, especially laptops and desktops, which enjoy strong brand recognition, brand recall, and high demand from among consumers at present. Furthermore, ITGPL has an established dealership network across major cities of Nepal through its sister concern.

Key Rating Weaknesses

Leveraged capital structure with moderately weak coverage indicators

The interest coverage ratio (ICR) marginally moderated to 0.87x in FY23, as compared to 0.59x in FY22, and the debt service coverage ratio (DSCR) remains fairly comfortable at ~1x. Tangible net worth (TNW) stood at NPR 373 Mn (*including share application money of NPR 99.88 Mn*) as on mid- July 2023, improved from NPR. 266 Mn as on mid-July 2022. The capital structure of the company stood leveraged, marked by overall gearing of 3.16x as on mid-July 2023 improved from 3.46x as on mid-July 2022 mainly on account of accretion of profits to reserves and scheduled repayment of term loan. The total outside liability to tangible net worth (TOL/TNW) stood at 3.60x as on mid-July 2023, improved from 5.12 x as on mid-July 2022 primarily due to increase in net worth. The total debt to gross cash accruals (TD/GCA) stood high at 59.99x as on mid-July 2023 improved from 90.90x as on mid-July 2022 due to improvement in GCA.

Supplier concentration risk and non-exclusive distributorship agreement

ITGPL is totally dependent on its suppliers for the timely supply of the products from the respective brands. Thus, any disruption in the supply chain could result in delay in revenue recognition and financial losses for ITGPL. Additionally, ITGPL does not have exclusive dealership agreements with its suppliers which remains a concern despite the company's long term association with the suppliers. Going forward, the continuation of the current terms of agreement with the suppliers remain a key monitorable.

Working capital intensive nature of operations with high reliance on external financing

The operations of ITGPL are working capital intensive owing to the distributorship nature of its business. The company maintains inventory to ensure smooth operations, especially since its product supply is entirely dependent on imports. In addition, ITGPL offers a substantial credit period to its customers, which has been increasing over the past few years. As a result, the company's operating cycle deteriorated to 168 days in FY23 from 62 days in FY22.

Existence in competitive industry coupled with technological risks

The product life cycle of consumer electronics, such as laptops and desktops, are typically short due to rapid changes in technology and intense competition between manufacturers globally. Thus, the performance scale of operations and profitability of ITGPL are linked to the brand value and performance of the OEMs¹.

Exposure to regulations and foreign exchange fluctuations

ITGPL's operations are partially constrained by regulatory risk arising from various laws, regulations and policies relating to consumer electronics like laptops and desktops. Additionally, ITGPL is exposed to foreign exchange fluctuations due to a mismatch in currency as the products are imported (in USD) while realization of the finished goods is in the local currency.

Analytical Approach: Standalone

Applicable Criteria:

¹ Original Equipment Manufacturers

Corporate Credit Rating Methodology

About the Company:

I.T Global is a private limited company established in May 14, 2008. The company is engaged in trading of various consumer electronics goods. ITGPL is one of the three authorized distributors for Dell products all over Nepal. ITGPL sells majority of its products to its sister concern Max International. Mr. Akbar Hussain is the single owner owning the entire stake of ITGPL.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	503	1,585	1,022
EBITDA Margin (%)	7.34	2.75	14.40
Interest Coverage Ratio (x)	1.08	0.59	0.87
Current Ratio (x)	1.05	1.14	2.57
Overall Gearing Ratio (x)	4.67	3.46	3.16

Earnings Before Interest Tax Depreciation Amortization

* Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	877.59	IRN BB-
Fund Based Bank Facilities- Working Capital Loan	Short Term	10.00	IRN A4
Non Fund Based Bank Facilities- LC/ BG ²	Short Term	1,000.00	IRN A4
Total Facilities		1,887.59	

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About Infomerics Credit Rating Nepal Limited:

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² Letter of credit/ Bank Guarantee



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